

Message Text

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ACTION EUR-12

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TAGS: EFIN, IT

SUBJECT: BANK OF ITALY DIRECTOR GENERAL ON MONETARY ISSUES

1. DURING LUNCHEON CONVERSATION WITH ECMIN AND TREASATT,
ON MAY 16, MARIO ERCOLANI, DIRECTOR GENERAL OF BANK OF
ITALY, MADE THE FOLLOWING POINTS OF INTEREST:

2. THE DOLLAR: ERCOLANI SAID HE FOUND IT DIFFICULT
TO UNDERSTAND THE REASONS FOR THE TENDENCY OF THE DOLLAR
TO STRENGTHEN DURING THE PREVIOUS SEVERAL DAYS. THE
OUTLOOK FOR THE U.S. BALANCEOF PAYMENTS ON CURRENT
ACCOUNT WAS FOR ANOTHER SIZEABLE DEFICIT IN 1978 WHICH
PROBABLY MEANS ANOTHER LARGE INJECTION OF DOLLARS
INTO THE EXCHANGE MARKETS. ACCORDING TO ERCOLANI, THIS
MEANS THE DOLLARSHOULD BE DEPRECIATING. WHEN IT WAS
POINTED OUT TO HIM THT EXCHANGE RATES ARE DETERMINED
LARGELY BY FUTURE EXPECTATIONS AND THAT IN THIS RES-
PECT THE DECISION TO POSTPONE THE TAX CUT BY THE
ADMINISTRATION, THE RECENT SAUDI PROPOSAL THAT OIL
PRICES BE FROZEN UNTIL 1980, THE EMERGENCE OF FED CHAIR--
MAN MILLER AS A TOUGH-MINDED INFLATION FIGHTER, THE AN-
MOUNCED TREASURY GOLD SALES, AND RISING INTEREST RATES

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IN THE U.S. MAY HAVE ALL CONTRIBUTED TO THE IMPROVEMENT
OF THE DOLLAR, ERCOLANI ACKNOWLEDGED ALL THIS BUT RE-
PEATED THAT THE UNDERLYING POSITION OF HE U.S. EXTERNAL
ACCOUNTS WAS AN OBJECTIVE FACTOR WHICH DID NOT ENGENDER
MUCH OPTIMISM. WHEN ASKED, ONLY HALF-JOKINGLY, WHETHER
HE WAS TRYING TO TALK DOWN THE DOLLAR, HE REPEATED, WITH
A SMILE, WHAT HE HAD TOLD US ON MANY OCCASIONS IN THE PAST:

ITALY HAD LIVED VERY WELL WITH THE "SLIDE" OF THE DOLLAR. HE WENT ON TO STATE, HOWEVER, RECENT DEVELOPMENTS HAD NOT BEEN HURTING THE LIRA AND THAT THE BANK OF ITALY WAS CONTINUING TO BE A NET BUYER OF DOLLARS. HE SAID ITALIAN EXPORTS REMAIN COMPETITIVE AND THAT THERE WAS NO REASONS TO CHANGE THE PRESENT INTERVENTION POLICY OF THE BANK.

3. JULY SUMMIT: ERCOLANI WAS VERY SKEPTICAL THAT MUCH USEFUL WOULD COME OUT OF THE BONN SUMMIT. HE EXPECTED THAT IT WOULD BE A REPETITION OF PAST MEETINGS WHEN THE SUBSEQUENT BEHAVIOR OF INDIVIDUAL COUNTRIES SELDOM LIVES UP TO THE RHETORIC OF THESE CONFERENCES.

4. WHITTOME'S VISIT: WITH RESPECT TO THE RECENT VISIT TO ROME OF IMF EUROPEAN DIRECTOR WHITTOME, ERCOLANI CONFIRMED ALL OTHER REPORTS THAT THE TRIP WAS VERY SUCCESSFUL AND THAT IT HAD SET THE APPROPRIATE CLIMATE FOR THE FORTHCOMING NEGOTIATIONS FOR A NEW STAND-BY. RESPONDING TO A QUESTION, HE STATED THAT IT WAS THE GOVERNMENT'S IDEA TO HAVE WHITTOME CALL ON LABOR LEADERS AND MEET A NUMBER OF OUTSIDE OBSERVERS. THIS PROVIDED AN OPPORTUNITY FOR WHITTOME TO GET THE VIEWS OF THESE OTHER PEOPLE, PARTICULARLY LABOR LEADERS, AND FOR HIM TO CONVEY TO THEM THE VIEWS OF THE IMF. THESE ENCOUNTERS REVEALED A MEETING OF THE MINDS, AT LEAST IN PRINCIPLE, ON THE MAJOR PROBLEMS FACING THE ECONOMY AND ON WHAT NEEDS TO BE DONE. WHETHER THIS WILL BEAR FRUIT

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REMAINS TO BE SEEN. HE FELT THAT THE BEGINNING, AT LEAST, WAS AUSPICIOUS.

5. MONETARY UNION AND THE COPENHAGEN SUMMIT: ACCORDING TO ERCOLANI, CHANCELLER SCHMIDT PROPOSED AT THE COPENHAGEN SUMMIT A KIND OF "BRETON WOODS" FOR EUROPE. HE DID THIS APPARENTLY WITHOUT CONSULTING THE BUNDSBANK OR HIS IMMEDIATE COLLABORATORS. THIS BECAME EVIDENT IN MEETINGS IN BASLE (ALONG CENTRAL BANK GOVERNORS) AND BRUSSELS (AMONG FINANCE MINISTERS). GERMAN AUTHORITIES ATTENDING THESE SESSIONS HAD NO IDEA WHAT SCHMIDT HAD IN MIND WHEN HE MADE THE PROPOSAL. IT ALSO APPEARS THAT THE SUBJECT HAS BEEN DROPPED SINCE THERE HAS BEEN NO FURTHER REFERENCE TO IT. WITH RESPECT TO EUROPEAN MONETARY UNION, ERCOLANI STATED THE USUAL ITALIAN POSITION THAT SUCH TALK AT THIS TIME IS PURE IDEALISM. HE SAID CONDITIONS ARE JUST NOT APPROPRIATE BECAUSE POLITICAL LEADERS ARE NOT PREPARED TO REDUCE THEIR POLITICAL SOVEREIGNTY WHICH MONETARY UNION REQUIRES. TRYING TO BEGIN THE PROCESS OF MONETARY UNION BY STARTING WITH THE EXCHANGE RATE, AS SCHMIDT SUGGESTED, IS REALLY DOING THE PROCESS BACKWARDS AND THIS IS NOT GOING TO SUCCEED. GARDNER

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